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Note: Comments and queries on the contents of this publication are welcomed. They may be directed to [redacted]

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ECONOMIC INTELLIGENCE WEEKLY

Notes

Allende's Pre-Election Consumption Spree Goes Awry

The Allende coalition's long-planned effort to increase food supplies before the 4 March congressional race is being stymied. Because of administrative inefficiency, severe shortages, and widespread graft, even food stocks hoarded by the government for election day impact now are going into the black market. Moreover, suppliers are limiting normal deliveries in the expectation of higher price ceilings. Many goods, including essentials, are available only on the black market, at prices beyond reach of the low-income people, on whom Allende's coalition has pinned its electoral hopes. [redacted] 25X1

Pakistan's Wheat Import Requirements for Fiscal 1974

Pakistan will be among the many countries lining up for substantial quantities of US grain later this year. Even though the upcoming spring wheat harvest is likely to match the record level of 7.2 million tons set in 1970, Islamabad in fiscal 1974 probably will approach the United States for more than 1 million tons of wheat on concessionary terms. Because of population growth in Pakistan and the government's efforts to maintain the current high per capita level of consumption, total wheat requirements will exceed the total of 8.5 million tons available in fiscal 1973. Imports in fiscal 1973 will total about 1.5 million tons, 90% US PL-480.
[redacted] 25X1

Eastern Europe Seeks Western Equipment

The Polish minister of heavy industry will visit the United States soon with a shopping list for [redacted] equipment to 25X1
modernize Warsaw's non-ferrous metals industry. Last year Poland and the other East European countries purchased a record $725 million worth of plant and equipment from the West. Japan, with about 20% of all orders, edged out the previous leading suppliers, West Germany and the UK; the US share jumped from practically nothing to about 10%. [redacted] 25X1

[redacted] 25X1

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[redacted] 25X1

Soviet-Japanese Oil Talks Still Deadlocked

Recent talks in Moscow failed to break the deadlock with the Japanese on the proposed joint Tyumen' oil development project in Soviet Siberia. [redacted] 25X1 Another round of talks is likely to take place in April and indications are that, under pressure from the business community, Japan may make a qualified commitment. If the project goes ahead, US oil firms are likely to become involved in a subsidiary role. Even if agreement were reached soon, oil deliveries would not begin before 1978. [redacted] 25X1

Philippines Request More US Rice

Manila is seeking 100,000 tons of PL-480 rice. Total rice imports in 1973 are expected to reach at least 700,000 tons. Import requirements remain high because of last summer's flood damage and the failure thus far of the government in its ambitious rice self-sufficiency program. [redacted] 25X1

Iran Reaches Settlement with Oil Consortium

The Shah and representatives of the Western oil consortium, in which US companies have a 40% interest, have reached a tentative agreement, which will largely meet the Shah's demand for larger revenues and greater control over the operations of the companies. The agreement will probably be financially equivalent to the participation agreements negotiated by other Persian Gulf governments and should not cause these countries to seek renegotiation of their agreements. [redacted] 25X1

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Articles

Implications of Current Soviet Economic Problems

A poor harvest and the need to bolster the industrial sector increased Soviet dependence on the West in 1972. Purchases of grain and orders for Western machinery and technology set new records. The general economic malaise also forced a reexamination of internal policies; last year's production shortfalls forced drastic revisions in the 1973 economic plan, although the basic priorities of the 1971-75 plan were left unchanged.

GNP last year grew at the lowest rate since World War II – about 1.5% – largely as a result of the harvest failure. A streak of bad weather reduced farm output almost 7% and grain output about 10% below the 1971 level. Brezhnev's program to increase meat consumption has created a demand for feed grain that cannot be met from domestic production, even in good years. Last year's poor harvest forced the USSR to buy about 29 million tons of grain worth almost $2 billion, more than half from the United States.

The industrial sector also fared poorly last year. The slower growth reflected a shortage of agricultural raw materials, construction lags, and a more pernicious problem, declining productivity. The USSR no longer can rely on extensive growth based on larger and larger increments of labor and fixed capital. Instead, substantial productivity gains, based largely on technological progress, are the key to maintaining high rates of economic growth. To foster technological progress, the Soviets are leaning heavily on imported Western machinery and technology.

Rising imports of machinery and the massive grain purchases will result in a record hard currency trade deficit of about $1.8 billion this year, compared with an estimated $600 million in 1972. It will be financed by a combination of credit and gold sales but also will create pressures to cut other imports, particularly of consumer goods.

Under present economic policies, dependence on the West will continue. If average weather prevails, the USSR will have to import at least an additional 40 million tons of grain during the next three years to meet the 1971-75 goals for meat. More Western machinery also will be required, particularly to develop Siberia's natural resources and to modernize consumer industries. Joint ventures that promise to increase the supply of exportable commodities such as oil, gas, and timber are becoming increasingly important to Moscow because they will provide large amounts of additional foreign exchange.

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Prospects already are poor for this year's winter grain crop, which usually contributes about 30% of total grain output. There was a record shortfall in fall-sown grain, and a continued lack of snow cover, combined with cold temperatures, may have killed an above-normal proportion of the new seedlings. If the harvest is poor, the leadership may well question whether it can afford the enormous grain purchases that would be required to shore up the meat program.

With continued aid from the West and average weather, the rate of growth of GNP should rebound to about 5%-6% annually in the next three years. This will not, however, be enough to fulfill major five-year plan goals or match the growth achieved in the previous five-year plan period. In the longer term, the USSR will be hard-pressed to sustain a rate of growth as high as 5% per year, the average for industrial nations.

Although increased dependence on the West will be painful to the Soviet leadership, the alternatives are even less attractive. The drastic economic reforms necessary to achieve greater efficiency and growth would be politically unacceptable. On the other hand, the lower growth rates for GNP and consumption that would result from greater autarky would result in a disgruntled populace at home and a damaged image abroad.

[redacted] 25X1

Outlook for US Oil Imports from Ecuador

Ecuador's oil deliveries to the United States may stagnate near the current level during the next few years, instead of doubling or tripling, as Quito had once hoped. Disappointing results from drillings in some areas and Quito's failure to maintain oil policies attractive to investors have dimmed prospects for rapid development. Of the seven active, predominantly US-owned oil consortia, only Texaco-Gulf is now producing. This enterprise has found sizable amounts of oil since 1967 and began exporting some 200,000 barrels a day through its Trans-Andean pipeline last August. Shipments of this low-sulfur crude oil, destined primarily for the US market, will fill the pipeline's capacity of 250,000 barrels a day in mid-1973 (about 4% of current US petroleum imports).

Discoveries by other oil consortia so far have been few and those were primarily non-commercial. As a result, earlier estimates of 5 billion to 10 billion barrels in recoverable reserves have now been scaled down to 1 billion to 5 billion. At a time when exploratory drilling has taken on a high-cost, high-risk character, Quito has moved to increase its financial take and control over industry operations. Pessimism within the industry has been strengthened by disputes over profit-sharing requirements and concession rents.

Except for Texaco-Gulf, whose $300 million investment and still reasonable profit expectations argue against a slowdown, all foreign companies apparently plan to reduce drilling operations pending clarifications of Quito's oil policies. Amoco-Ecuador has relinquished its entire concession, and four other consortia have returned sizable acreage blocks. Under present circumstances, the companies are unlikely to expand the existing pipeline's capacity, much less construct another line, as planned earlier.

President Rodriquez recognizes that Ecuador lacks the financial and technical resources to develop the oil industry itself. He may be convinced, however, that Texaco-Gulf will in the end want to market increased amounts of oil and that European and Japanese firms will take over concessions abandoned by other US companies. 25X1

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International Moneta:y Developments*

The international monetary crisis ended at least temporarily with the new currency alignment on 12 February. The dollar initially strengthened in Europe, then weakened somewhat. The mark closed near its ceiling against the dollar on 26 February, but for much of the post-settlement period it was at or near its new floor against the dollar.

Foreign reaction to the dollar devaluation has been generally favorable, although there is increasing concern about the durability of the currency settlement. West Germany is relieved that it did not have to act unilaterally or revalue relative to most of its major trade partners. The United Kingdom and Canada are pleased because they were not forced to stop floating and have now gained a competitive advantage relative to most of their trade partners. The less developed countries see US devaluation as reducing the likelihood of protectionist measures that would have been harmful to them. [redacted] 25X6

[redacted] While official French reaction has been favorable, the French press has been critical, focusing on the size of the US devaluation, expectations of a new wave of American takeovers of European firms, and, again, fears of new US trade demands.

Many of the potential destabilizing factors that produced the recent crisis are still present. Multinational corporations hold hundreds of billions of dollars in liquid assets, some of which they are prepared to move rapidly among currencies and foreign exchange markets for profit or protection. Speculative flows have increased in volume and velocity, with capital controls, which vary significantly among nations, proving to be only a minor obstacle. The next upheaval could be triggered either by an unexpected worsening of the trade balance or by domestic economic or political problems in a major industrial nation. At this point, a joint float of European currencies led by France and West Germany appears to be a likely response to another international crisis. [redacted] 25X1

[redacted] 25X1

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Israeli Balance-of-Payments Prospects Favorable*

Israel now is in a more favorable economic position than at any time since the nation was formed. Following three years of balance-of-payments deficits, the payments balance moved into the black, with a $163 million surplus in 1971 and a $620 million surplus in 1972. Foreign exchange reserves have doubled since the 1967 war to $1.2 billion, despite the continuing high level of military imports.

Balance-of-payments surpluses are likely to be repeated at least through 1975, assuming no drastic changes in Israel's international relations. Even in the absence of US government grants and loans, Israel probably would run surpluses of $150 million to $200 million in 1973 and 1974, and some $350 million in 1975.

Planned growth in 1973-75 of about 8% a year is well within the limits of the economy and should not increase the deficit on civilian trade, which has been stabilized at a manageable level. Military imports will remain at a high level, but a cutback, if necessary, would not jeopardize Israel's overwhelming military superiority. Even if various elements in the cheerful financial picture should darken, Israel has access to ample foreign credits and investment [redacted] 25X1

[redacted] 25X1

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Publications of Interest

People's Republic of China: International Transport, 1971 and Preliminary 1972
(CIA ER IR 73-2, February 1973, [redacted] 25X1

In 1971 the overall volume of China's international trade, which is handled primarily by ocean shipping, was about the same as in 1970. Deadweight tonnage arriving at Chinese ports from abroad dropped slightly to 25 million tons, whereas international overland tonnage (mainly rail) increased by a substantial percentage. Data for 1972 suggest a 10% increase in the volume of international transport.

Indira Gandhi's Economic Policies
(CIA ER IM 73-22, February 1973, [redacted] 25X1

At the beginning of 1973, India's Prime Minister surveys an economy that is in disarray. The agricultural crisis stemming from the erratic 1972 monsoon is leading to a drain on foreign exchange reserves, serious shortages of grain, and renewed dependence on imports of grain from foreign nations, including the United States. In this bleak and deteriorating economic situation, Mrs. Gandhi is making adjustments to the necessities of the moment without abandoning her basic economic goals of detailed government control over large-scale industry and a diminution of private foreign investment.

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